

# **THE LEONARD LETTER**

*A weekly electronic newsletter about  
California government, business and taxes  
Bill Leonard, Member  
State Board of Equalization*

*November 20, 2006*

## **QUOTE OF THE WEEK**

*"I do therefore invite my fellow-citizens in every part of the United States, and also those who are in foreign lands, to set apart and observe the last Thursday of November next as a day of thanksgiving and praise to our beneficent Father who dwelleth in the heavens. And I recommend to them that while offering up the ascriptions justly due to Him for such singular deliverances and blessings they do also, with humble penitence for our national perverseness and disobedience, commend to His tender care all those who have become widows, orphans, mourners, or sufferers in the lamentable civil strife in which we are unavoidably engaged, and fervently implore the imposition of the Almighty hand to heal the wounds of the nation and to restore it, as soon as may be consistent with the divine purpose, to the full enjoyment of peace, harmony, tranquillity, and union." ---President Abraham Lincoln's Thanksgiving Day Proclamation, October 2, 1863*

## **AROUND THE STATE**

### **\*\*\*Center Schmenter\*\*\***

Commentators around the state and nation have been heralding the election results as a victory for centrism. In California, such analysis arises from Governor Schwarzenegger's re-election in an otherwise Democrat year. Sacramento Bee columnist Steve Wiegand put it much better than I can: "[L]et's face it, Skippy the Wonder Possum could have whupped Phil Angelides."

<http://www.sacbee.com/696/story/75171.html>

And unlike so many other pundits, Wiegand is unimpressed with the "bipartisan cooperation" that Schwarzenegger and legislative Democrats supposedly demonstrated last year. That "cooperation" manifested itself on three topics: increasing the minimum wage, regulations to reduce greenhouse gases, and making prescription drugs available for less to the uninsured. Wiegand reminds us that on those three bills, there were only six Republican legislative votes cast in favor and 138 cast against.

Thus, it was not "bipartisanship" so much as the Governor being "willing to bend to get re-elected" and Democrats being "willing to help him to further their own agendas." Wiegand predicts that such a perfect storm will not reoccur in 2007 since the Dems will not be eager to

boost Arnold, neither an advocate for the 2008 GOP presidential nominee, nor a contender for the U.S. Senate in 2010. Beyond those political realities, Wiegand is spot-on in his condemnation of centrism: “The let’s-all-be-friends-in-the-middle sentiment notwithstanding, there’s nothing wrong with conflicting political ideologies in state politics. In fact, the idea of approaching problems from different perspectives can increase the number and quality of the solutions for them, as long as the parties are willing to negotiate in good faith.”

### **\*\*\*The Losers’ Votes\*\*\***

As of Friday afternoon, here are the votes accumulated by the partisan candidates who lost in the General Election. From these figures, political junkies can draw conclusions about each party’s base vote and thus identify the percentage of swing voters in each race as well as view the relative popularity of each of the candidates who lost.

Governor:

Phil Angelides (Dem)

3,026,131 for 39.0 %

Lt. Governor:

Tom McClintock (Rep)

3,443,836 for 45.1 %

Secretary of State:

Bruce McPherson (Rep)

3,372,306 for 45.0 %

Treasurer:

Tony Strickland (Rep)

3,009,254 for 40.2 %

Controller:

Claude Parrish (Rep)

2,773,063 for 37.3 %

Attorney General:

Chuck Poochigian (Rep)

2,883,806 for 38.2 %

Insurance Commissioner:

Cruz Bustamante (Dem)

2,873,310 for 38.6 %

U.S. Senate:

Richard “Dick” Mountjoy (Rep)

2,677,317 for 35.1 %

### **\*\*\*What Would Milton Think?\*\*\***

It was just a one sentence quote in the November 15 Los Angeles Times, but it struck me cold. First, what I feared would happen with the election came to pass – the voters approved all the bonds despite our structural deficit, despite the fact we have billions of bonds in the pipeline already, and so on. Now the Legislative Analysts tells us that state revenues are going down and the spike in revenues last year, as I said then, look like one-time events rather than a sign of an expansion of the state's revenue base.

The Governor's answer to what appears to be a serious fiscal crisis in the making? In the LA Times story he says this: "With our infrastructure bonds, we will again stimulate the economy."

Is it not ironic that on same week that we mourn the passing of Milton Friedman, a friend and mentor of our Governor, the Governor starts talking about economics as if he sides with the ideological enemies of Friedman about where and how wealth is generated?

Actually it is not too late. Even though the voters have authorized the bonds it is still up to the Governor and the Legislature to order the bonds to be marketed. If they would instead use the debt service money to build the same projects on a pay-as-you-go basis it would save billions in interest while building even more needed public works projects.

## **ISSUE FOCUS**

### **\*\*\*Report: CalPERS, CalSTRS Have Ties to Terror\*\*\***

Kudos to the State of Missouri for investing a portion of that state's dollars in a global fund that screens out companies that do business with terrorist states. It is long past time we do the same. While environmental and other social causes have niches in the investment community, there is very little offered in the way of investments that watch out for connections to terror. The Missouri State Employees Retirement System Board hired Conflict Securities to screen the state's direct investments for terror connections. And the state's investment board chose to invest some of the state's money with Boston-based State Street Global Advisors because that company agreed to have one of its global funds screened by Conflict Securities. While CalPERS is often cited as a trailblazer among state investment bodies, it is Missouri that is pushing the envelope with this issue.

There is a private organization that is trying to raise the matter's profile. The Center for Security Policy has a website devoted to the issue:

<http://www.divestterror.org/report.html>

According to their report, the California Public Employees Retirement System (CalPERS) has 20% of its equity investments with companies that either have ties to terrorist sponsoring states (201) and/or have ties to countries with WMD proliferation concerns (24). CalSTRS, according to the report, has an even higher portion of its equity portfolio invested this way – 24%.

One caution is that targeting countries' economies is never an easy issue. Some argue that it often only hurts ordinary people who lose jobs and that American corporations can provide the stability that keeps some countries from being engulfed in chaos. However, when it comes to terrorist states, the use of the divestment tool makes sense because the companies operating in these countries are often providing technical support, not for essential infrastructure that benefit the people, but rather for weapons and surveillance technology used to oppress their populations, make the world less safe, and cause the kind of worry in world markets that increases the price of oil.

## **MISCELLANY**

### **\*\*\*A Good Read\*\*\***

The world and freedom lovers in it lost a great hero this week with the passing of Nobel Prize winning economist Milton Friedman. In writing about the tremendous impacts of this man, the Wall Street Journal wrote, "There are some public figures whose obituaries can be written years in advance. Milton Friedman was not one of them," and printed an article he had just written nearby. Indeed, his name came up while I thinking about and writing the above two stories in this newsletter. Today, then, I am reprinting my last recommendation of one of his books. The questions Friedman raises in this work are tributes to the genius of this thinking and will continue to influence the world as long as people read his incredible body of work.

Nearly half a century ago, Professor Milton Friedman delivered a series of lectures at Wabash College. Professor Friedman, with the help of his wife, compiled these lectures into a book called "Capitalism and Freedom." Friedman won the Nobel Prize in Economics and this work will help anyone see why. In it, he articulates his philosophy with reasoned judgment explained in clear language and everyday examples that a reader can easily grasp. In the preface of the 1982 edition, Friedman explained that this work is a precursor to his and his wife's 1980 book "Free to Choose," which also had a PBS companion series. In "Capitalism and Freedom," Friedman seeks to address this question, "How can we benefit from the promise of government while avoiding the threat to freedom?"

Some may wonder why they should read a book conceived 50 years ago about the link between politics and economics. The short answer is that is still completely relevant to the public discussions of today. Consider this passage: "If one were to seek deliberately to devise a system of recruiting and paying teachers calculated to repel the imaginative and daring and self-confident and to attract the dull and mediocre and uninspiring, he could hardly do better than imitate the system of requiring teaching certificates and enforcing standard salary structures that has developed in the larger city and state-wide systems. It is perhaps surprising that the level of ability in elementary and second school teaching is as high as it is under these circumstances. The alternative system would resolve these problems and permit competition to be effective in rewarding merit and attracting ability to teaching."

## **BOE AND LEGISLATIVE DATES**

**November 20-21, 2006** -- Board of Equalization meets in Sacramento.

**November 23, 2006** --- Thanksgiving Day.

**December 4, 2006** --- The 2007-08 Regular Session of the Legislature convenes for an organizational session at 12 noon (Art. IV, Sec. 3(a)).

**January 3, 2007**--- Legislature reconvenes.

**January 8, 2007** --- Swearing-in of new state Constitutional officers.

**January 10, 2007** --- Budget Bill must be submitted by Governor (Art. IV, Sec. 12 (a)).

## **NOTABLE DATES/ HISTORY**

**November 20, 1620** --- Peregrine White was born aboard the Mayflower, anchored near the tip of Cape Cod in Massachusetts. She was the first child ever born of English parents in New England.

**November 20, 1789** --- New Jersey became the first state to ratify the Bill of Rights.

**November 21, 1980** --- A fire at the MGM Grand Hotel in Las Vegas killed 84 people.

**November 22, 1906** --- “S-O-S” was adopted as the international distress signal.

**November 22, 1935** --- The first transpacific air-mail flight left San Francisco.

**November 22, 1963** --- President John F. Kennedy was assassinated in Dallas, Texas.

**November 23, 1765** --- The people of Frederick County, MD refused to pay England's Stamp tax.

**November 23, 1814** --- Elbridge Gerry, who served as vice president, delegate to the Continental Congress, U.S. representative from and governor of Massachusetts, and for whom the term “gerrymander” was named, died at the age of 70.

**November 23, 1973** --- Representative Yvonne Burke D-Calif. gave birth to a daughter, Autumn Roxanne Burke, becoming the first member of Congress to become a mother while in office.

**November 24, 1713** --- Father Junipero Serra, who founded California’s mission, was born.

**November 24, 1963** --- Jack Ruby shot Lee Harvey Oswald.

**November 25, 1963** --- JFK was laid to rest at Arlington National Cemetery.

**November 26, 1906 ---** Theodore Roosevelt visited Panama, becoming the first sitting U.S. president to travel abroad.

## **GENERAL TAX INFORMATION**

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115  
TDD service for the hearing impaired  
TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

## **HOW TO CONTACT ME**

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